

Consultation on the review of non-household retail price controls

Introduction and general comments

This is Bournemouth Water's response to the consultation on the review of non-household retail price controls.

We welcome the opportunity to respond and support the ongoing collaborative approach to addressing the challenges relating to the uncertainty surrounding the evolution of market opening.

We are broadly supportive of the proposals laid out in the consultation for the review of non-household retail price controls. We agree that the review should at this point be restricted to only to issues relating to the PR14 price control and default tariff price caps as the opportunity for learning to date has been too short for any meaningful conclusions on other areas to be drawn.

While we recognise that the differing approaches taken by companies to the development of default tariffs has inevitably created complexity and a reduction in transparency for customers and retailers wishing to make comparisons we believe that attempting to standardise tariffs across the industry would create different issues. Alternative solutions such as comparison websites hosted by independent parties such as Ofwat or CCWater could address the need for greater transparency.

Finally, we are concerned that the proposed timetable does not allow sufficient time for regulatory account information to be fully taken in to account, or for companies to fully consider the requirements of the review. A shorter period between draft and final determinations could assist the first while advance indications of the likely requirements for the review and tables would help the second issue considerably.

Below we respond in more detail the specific questions raised. We would be pleased to expand on any of our comments if it would be helpful.

Responses to key consultation questions

Q1. *Should this review focus only on issues relating to the non-household retail price controls and the default tariff price caps?*

We agree that, as envisaged at PR14, the focus of the review should only be on allocations and price caps, and in essence refining the Final Determination. Constraining the review as planned will also avoid any potential incidence impacts on other controls.

Looking ahead, we support the consideration of the wider issues raised in the consultation once the market has further developed and there is a clearer understanding of the key issues.

Q2. *In considering non-household retail issues, should this review allow for the reallocation of costs and margins between default tariff price caps, but with the constraint that aggregate levels of non-household retail costs and margins remain the same as in the existing controls, consistent with the expectations set out in our final determinations?*

We agree that the review should be consistent with the Final Determination intention and that it should only focus of the reallocation of the costs and margins between default price caps while the aggregate levels of costs and margins remain the same.

We suggest that if, after April 2017, the market is unresponsive the flexibility to review margins could be retained so that action could be taken; as leaving any response until 2020 may not be in the best interest of an effective market or, in turn, customers.

Q3. *How can the transparency in the mapping of tariffs to the default tariff caps be improved?*

We recognise that that the differing levels of tariff bands and margins across companies' charges schemes creates a lack of transparency for customers and retailers.

However we are concerned that approaches to increasing the ease of understanding should not impact the reasons behind companies' tariff structures and margin allocations therefore we suggest that a price comparison website hosted by Ofwat or CCWater could fulfil the need without compromising companies' commercial considerations.

Q4. *Do you consider it appropriate to encourage companies to increase the consistency in default tariff cap structures and consider carefully whether the diversity in the present levels of default tariff caps is properly justified?*

As we have outlined above we do not consider the introduction of a standard default tariff to be appropriate. Companies have differing cost and risk drivers, for example the credit risk of differing classes of customers, and as a standalone entity with their own price controls retail non-household business units need to be able to operate effectively. We are concerned that the potential negative impacts of introducing a standard structure could outweigh the benefit and would also not be consistent with a market approach.

Q5. *What information should companies be asked to provide and publish in support of any proposals (including for no change) they make in respect of their default tariff caps?*

We agree that in the interest of encouraging market development it would be helpful for companies to publish their rationale for the decisions taken; whether this is an amendment or 'no change'. However the requirement for publication of specific information needs to be carefully balanced with the need to protect the any commercial considerations.

Q6. *Do you consider it appropriate to allow companies the option not to update their cost and margin attributions and allocations, and so retain their existing default tariff price caps?*

Yes. While it is appropriate for all companies to review their existing cost and margin allocations they should also have the option to retain their existing default tariff price caps if they believe that they remain appropriate.

As previously discussed we believe it would also be reasonable for companies to explain their rationale for doing so, but the level of justification required to underpin any such decision should be targeted and proportionate.

Q7. *Is a three-year duration appropriate for the next non-household retail price control and if not what is the most appropriate duration and why?*

We agree that a three-year control is appropriate to align the next review with the other controls and provide clarity and consistency while the market evolves.

However in line with our response to question 2 in the interest of encouraging an effective market the option for a further interim review, should it be deemed necessary, could be considered. The criteria for triggering such a review would need to be clear however.

Q8. *Do you agree with the proposed timetable for this review, with a statement of method in April 2016, draft determinations in September 2016 and final determinations in December 2016?*

We accept that there are time pressures surrounding the review, however the current proposals will not allow sufficient time to take the regulatory account information in to account.

We are also concerned that if significant work is required to prepare submissions, then publishing the requirements on 8 April for the methodology would not allow companies sufficient time to prepare. Advanced information on the methodology, with requirements finalised on the 8 April, would allow companies the necessary time. Alternatively the April date could be brought forward.

Summary

To summarise our key points in this response:

- We are broadly supportive of the consultation proposals
- We are concerned that the negative impacts of introducing a standard default tariff may outweigh the benefits and that simpler alternatives that will avoid negative impacts on companies are available
- The timetable as currently proposed is very tight and does not allow companies sufficient time to adequately take regulatory account information in to account.

*Bournemouth Water
December 2015*